



# SPECIAL REPORT

## VIRGINIA COMMISSION FOR THE ARTS

OCTOBER 2019

Auditor of Public Accounts  
Martha S. Mavredes, CPA

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## EXECUTIVE SUMMARY

In May 2019, the Auditor of Public Accounts (APA) conducted two separate reviews of the Virginia Commission for the Arts (Commission): a performance audit of the Commission's transfer payments and an Internal Control Questionnaire review of the Commission's fiscal and administrative processes. Results of these reviews are generally reported in either a comprehensive report or a letter to management, respectively. However, because of the significance and overlap of the issues identified during these reviews, this combined special report was prepared.

Transfer payments represent the majority (93 percent) of the Commission's expenditures. Both governmental and non-governmental entities rely on funding transferred from the Commission to operate and carry out their missions and programs. Our audit of transfer payments reviewed the Commission's internal control structure over state and federal payments passed through to sub-state and non-state entities to ensure compliance with applicable state and federal regulations.

The purpose of the Internal Control Questionnaire review was to evaluate if the Commission has developed and implemented adequate internal controls over significant organizational areas and activities. We do not express an opinion on the effectiveness of internal controls as part of this review.

During both reviews, we determined that the Commission does not have a sufficiently strong internal control environment over their operations. In addition, we determined the Commission is not in compliance with state and federal regulations when administering the pass-through of grant funds. The underlying cause of these issues is management's lack of knowledge of statewide requirements over critical business processes.

Based on the concerns identified throughout our reviews, it is our recommendation that management explore the expansion of administrative and fiscal service arrangements. The Department of Accounts, Department of Human Resource Management, and Virginia Information Technologies Agency offer service arrangements in which they manage certain administrative functions on behalf of smaller agencies. We encourage the Commission to collaborate with these agencies and consider outsourcing certain areas of the Commission's administrative and fiscal functions.

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## INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. In order to facilitate a more efficient and effective annual work plan, the APA developed a risk-based approach for auditing agencies that we are not required to audit every year. We refer to these agencies as “cycled agencies.” The approach allows the APA the flexibility to focus on the more significant agency operations at any one or several of these cycled agencies. The Virginia Commission for the Arts (Commission) falls into the cycled agency category, and is part of this approach.

Under this approach, the APA sends a questionnaire regarding internal controls to the agency at least once every three years to evaluate whether the agency has developed and implemented adequate internal controls over significant organizational area and activities. We do not express an opinion on the effectiveness of internal controls as part of this review. Agencies are to respond with details of internal controls as of the time they complete the questionnaire. We then review the responses to the questionnaire, and design and perform procedures based on the results. This report reflects our review of internal controls in place at the Commission as of May 2019. The APA also performs a separate special project every year that focuses on a single business function that is determined to be significant for the agencies in the cycled agency category. For calendar year 2019, the special project’s focus is transfer payments, which represent pass-through funds with activity occurring in fiscal year ended June 30, 2018. The purpose of the transfer payments special project was to review agencies’ internal control structure over state and federal payments passed through to sub-state and non-state entities to ensure compliance with applicable state and federal regulations. We completed a risk analysis to determine which agencies to include in these reviews. The Commission was selected for both of these reviews.

At the conclusion of the internal control reviews, we generally provide a letter to management stating the results of the review of internal controls and highlighting any key areas of interest. Similarly, at the conclusion of the special project, we provide a comprehensive report detailing the results for the agencies selected for review. However, because of the extensive collaboration between the two review teams and the nature and overlap of our recommendations for the agency, this combined special report was prepared.

## COMMENTS TO MANAGEMENT

### **Take Steps to Strengthen the Control Environment**

The Commission does not have a sufficiently strong internal control environment. A control environment is defined as the set of policies, standards, processes, and structures that provide the basis for maintaining an effective system of internal controls within an organization. Management establishes and sets expectations for the control environment and is responsible for emphasizing and promoting the importance of maintaining controls. This is accomplished through established policies and procedures, annual risk assessments, and a commitment to hold individuals accountable for their internal control responsibilities in pursuit of agency objectives.

Recent turnover in the Executive Director and Deputy Director positions has caused the Commission's control environment to significantly weaken. During our review, we noted that management did not appear to have sufficient knowledge of statewide policies and procedures to adequately assess or monitor the overall internal control environment. In addition, the Commission has very few agency policies and procedures to guide and instruct employees on the proper handling of agency business. See "Design and Implement Policies and Procedures for all Critical Business Areas" recommendation below for additional details.

The lack of policies and procedures is compounded by a lack of documented resources, such as employee work profiles, that clearly define duties and responsibilities assigned to the Commission's five full-time staff. Management is currently reviewing written job descriptions for each staff and is drafting employee work profiles to address this issue. Further, there do not appear to be backups in place for some of the mission-essential functions assigned to staff within the agency. The Commission's Continuity Plan states that "key personnel should cross-train back-up personnel capable of performing [mission-essential functions]." Turnover within the agency, especially in the appointed Executive Director and Deputy Director positions, would severely disrupt the Commission's operations if this issue is not addressed.

Given the small size of the agency and the fact that forty percent of the agency's staff is subject to change with every new gubernatorial administration, employee turnover will continue to pose a major risk to the Commission if not adequately addressed. Commission management agrees that employee turnover could greatly disrupt the continuity of operations due to loss of institutional knowledge needed to execute key transactions and duties.

As a state agency, the Commission is responsible for several significant administrative functions, such as grants management, payroll, human resource management, financial planning and management, procurement and contract management, information systems security, and other aspects of operation. The APA encourages smaller agencies with limited staff to consider outsourcing certain processes to larger agencies who have the resources to provide adequate internal controls and proper management oversight of public resources. For example, the Department of Accounts, Department of Human Resource Management, and Virginia Information Technologies Agency all offer service

arrangements in which they manage certain administrative functions on behalf of smaller agencies. While the Commission has an administrative arrangement with the Payroll Service Bureau (Bureau) to provide payroll processing services, this arrangement does not address all of the Commission's needs. A benefit of these types of service arrangements is that staff at the Commission could better concentrate on its mission of celebrating and championing the arts within the Commonwealth rather than spending the majority of their time on administrative tasks.

Management should explore the option of outsourcing aspects of financial management, information security, and human resources functions. For these arrangements to be successful, management must realize its responsibility regarding internal controls. Further, management should clearly define and document both the Commission's and the service provider's responsibilities in an agreement signed by management before starting the administrative service arrangement.

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*The Commission should explore the option of outsourcing aspects of its administrative and fiscal functions to other state agencies so that Commission staff can better concentrate on its mission of celebrating and championing the arts within the Commonwealth rather than spending the majority of their time on administrative tasks.*

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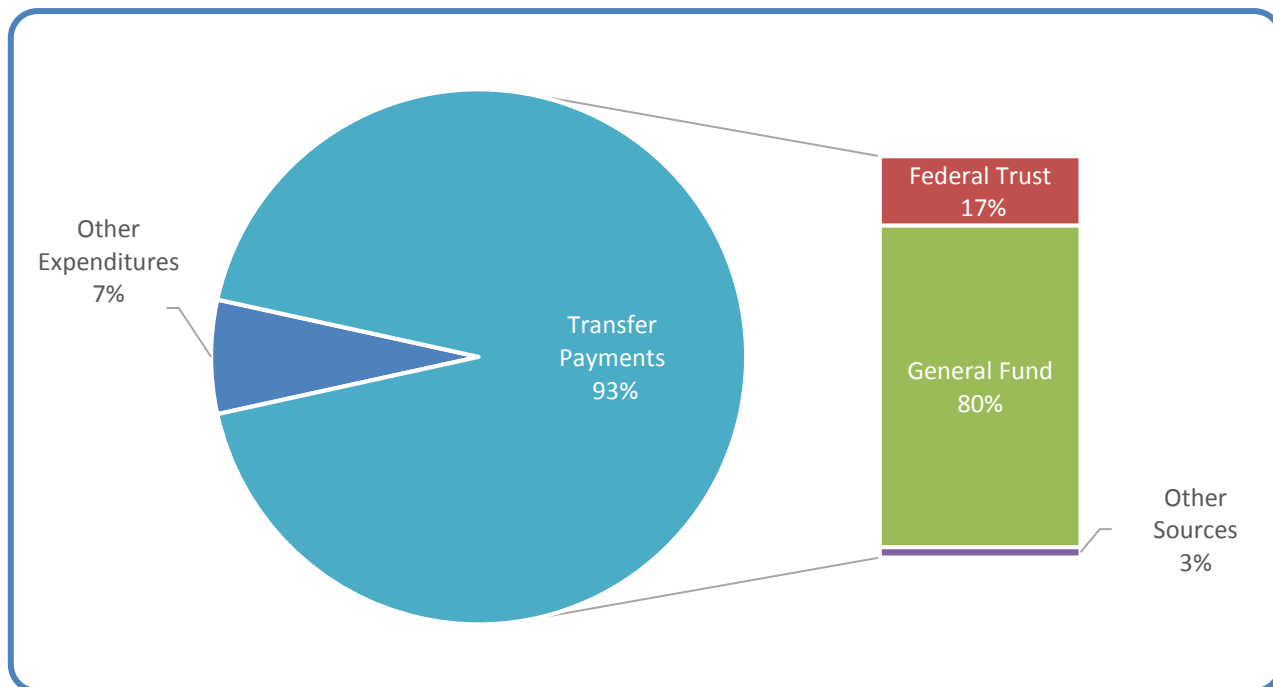
The lack of a strong control environment and internal control structure is a major factor contributing to the concerns noted throughout this report. In addition, the current environment with the significant lack of internal controls creates a greater opportunity for fraud or errors to occur. Management should take the necessary steps to strengthen the control environment by committing to establish documented policies and procedures in line with applicable state and federal guidelines; formally defining staff duties and responsibilities; and prioritizing the design, implementation, and monitoring of internal controls.

## Improve the Commission's Controls over Transfer Payments

As noted in Chart 1 below, transfer payments comprised 93 percent of total expenditures during fiscal year 2018. Of the \$3.9 million in total transfer payments, 17 percent represent federal funds received from the federal government and passed-through to sub-state and non-state entities, and 80 percent represent general funds received from the Commonwealth and passed-through to other entities.

**Fiscal 2018 Expenditure Breakdown**

Chart 1



The Commission does not provide proper oversight and monitoring of funds disbursed to other governmental and non-governmental entities to ensure funds are spent in accordance with state and federal grant requirements. Further, the Commission is not adequately managing federal funds provided by the National Endowment for the Arts (Endowment) in accordance with the Commonwealth's policies and federal regulations governing Endowment funds, including the National Foundation on the Arts and the Humanities Act of 1965 (enabling legislation), and the Endowment's General Terms and Conditions for Partnership Agreements (Terms and Conditions).

### *Lack of Subrecipient Monitoring*

Without proper monitoring of subrecipient activity using federal funds, the Commission cannot reasonably ensure that expenditures are allowable based on the cost principles outlined in the Terms and Conditions. In addition, the Commission is not performing a review of locality Single Audit reports to ensure subrecipients receiving more than \$750,000 in yearly federal expenditures, in total from all Commonwealth agencies, are obtaining a Single Audit.

### *Improve Financial Management of Federal Grants*

The Terms and Conditions state that the Commission “must establish and maintain effective internal control over your award that provides reasonable assurance that you are managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.” The Terms and Conditions also state, “Failure to comply with these requirements may result in suspension or termination of the award and our recovery of funds. In addition, the United States has the right to seek judicial enforcement of these obligations.” As noted throughout this report, the Commission does not have a sufficiently strong internal control environment to comply with this requirement. A review of the Commission’s current fund management and internal control procedures would show non-compliance with several requirements, which could result in a loss of funding and the termination of grants that support arts across the Commonwealth. We identified the following issues:

- We could not confirm the Commission’s compliance with the allocation requirements outlined by the enabling legislation, which requires that the Commission develop and follow a plan to not pay more than 50 percent of the total cost of any project. This plan must include the projects and programs that the Commission intends to support during the fiscal year, and must be approved by the Endowment’s Chairperson.
- The Commission is not properly managing the funds provided by the Commonwealth or the Endowment to provide grants to sub-state and non-state entities. During our review of transfer payments and discussions with management, we discovered that the Commission is spending its General Fund appropriation prior to drawing down any federal funds. This potentially leaves the Commission subject to significant problems if the state budget is decreased mid-year, as they maintain little to no general funds during the last quarter of the fiscal year. In addition, the regulations surrounding the use of federal funds require certain fund management practices the Commission is not performing. The following regulatory guidelines provides instruction for proper management of funds:
  - 31 CFR § 205.33: “A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close



as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs. States should exercise sound cash management in funds transfers to subgrantees in accordance with OMB Circular A-102 (For availability, see 5 CFR § 1310.3.).”

- Enabling Legislation: “Funds made available under this subsection shall not be used to supplant non-Federal funds.”
- Terms and Conditions: “As a reminder: the [Endowment] does not prescribe how Federal/matching funds must be allocated; you may choose to apply them to a small number of subawards or spread them in smaller amounts more widely. It is up to you to determine the method that allows for the fullest compliance with the requirements outlined.”
- 2 CFR § 200: The Commission is not complying with the requirements for federal awards, including contracts with subrecipients, contained in the Endowment’s enabling legislation and the Uniform Administrative Requirements.

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*As stated in the Terms and Conditions, “Failure to comply with these requirements may result in suspension or termination of the award and our recovery of funds. In addition, the United States has the right to seek judicial enforcement of these obligations.” Loss of Endowment funding could result in the termination of several grants that promote the arts across the Commonwealth.*

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The Commission should perform a thorough review of the Endowment’s Terms and Conditions in order to gain an understanding of the Commission’s responsibilities in managing federal funds. In addition, the Commission should develop policies and procedures that outline the requirements and the processes for fulfilling the requirements. The Commission should consider the regulations that guide the use of federal funds, and develop a funds management process that is consistent with the requirements of the federal award.

### **Design and Implement Policies and Procedures for all Critical Business Areas**

The Commission does not have adequate policies and procedures in place for many of their critical business processes. Instead, the Commission relies on Commonwealth policies and procedures documented in the Commonwealth Accounting Policies and Procedures (CAPP) Manual. CAPP Topic 20905 states the following: “As with every topic in this manual, CAPP Manual procedures alone never eliminate the need and requirement for each agency to publish its own internal policies and procedures documents, approved in writing by agency management. The lack of complete and up-to-date internal policies and procedures, customized to reflect the agency’s staffing, organization, and operating

procedures, reflects inadequate internal control.” We identified a lack of policies and procedures over several fiscal and administrative processes, including:

#### *General*

- requesting and using funds from the Virginia Arts Foundation Fund (Fund) in accordance with the Fund’s intended purpose established by the Code of Virginia;
- completion of the required Agency Risk Management Internal Control Standards (ARMICS) review and submission of the ARMICS certification (CAPP Topic 10305);
- completion and submission of the required annual Department of Accounts’ (Accounts) attachments and supplemental information in accordance with the Comptroller’s Directive;
- reconciliations for the Commonwealth’s accounting and financial reporting system (CAPP Topic 20905); and,
- mandatory training required by the Commonwealth.

#### *Payroll and Human Resources*

Although the Bureau is used for the agency’s payroll processes, the agency has a level of responsibility related to payroll and human resources. These responsibilities are outlined in the Bureau’s Scope of Services document. In order to ensure these obligations are fulfilled, the Commission should establish policies and procedures over these areas including:

- payroll certification review and related reconciliations;
- notification of payroll changes to the Bureau;
- submitting payroll changes to the Bureau; and,
- Commonwealth’s retirement benefits system reconciliation.

#### *Expenditures*

- *Grants:* The Commission should develop policies and procedures that outline the review of supporting documentation, the individuals who enter and approve the grant payments in the Commonwealth’s accounting and financial reporting system, the timeline for entering and approving grant payments, and the payment process through the Commonwealth’s accounting and financial reporting system. Additionally, management should develop policies and procedures once the Commission addresses the issues related to transfer payments noted in section “Improve the Commission’s Controls over Transfer Payments” above.

- *Prompt payment of expenditures:* The Commission does not have policies and procedures regarding the prompt payment of vouchers and grant payments. The lack of policies and procedures resulted in issues, which were identified during our audit procedures. In a sample of 40 vouchers, seven appeared to have been paid after the 30 day period. Further investigation showed that the Commission was not properly documenting the invoice receipt date, which resulted in the appearance of late payments. The Commission should review their process for determining the “invoice date” that is entered into the Commonwealth’s accounting and financial reporting system which initiates the Prompt Pay 30 day period. The policies and procedures should reflect this updated process.
- *Disbursements:* There are no existing procedures related to disbursements. The Commission should establish procedures to outline approval controls and ensure proper preparation of disbursements.
- *Small Purchase Charge Cards:* Per CAPP Topic 20355, the use of purchase charge cards is ultimately a liability of the agency. The Commission should establish policies and procedures to ensure that the agency is meeting requirements per the CAPP Manual to include a regular review of purchases and review of reasonableness for cardholder activity and purchase limit.
- *Travel:* The Commission does not have policies and procedures in place related to travel. Per CAPP Topic 20335, expense reimbursements require certain information upon submission. In addition, a cost benefit analysis should be performed in order to determine the most cost effective method of transportation for travel. The Commission should establish policies and procedures over travel to ensure compliance with the CAPP Manual.

While these areas were specifically identified during the audits, policies and procedures are required for all critical business processes. Management should develop and implement documented policies and procedures for all critical business processes that provide sufficient detail to allow an individual new to the process to follow them. Management should also ensure policies and procedures are reviewed annually or as needed, and that evidence of this review is retained.

### **Ensure Compliance with the Agency Risk Management and Internal Control Standards (ARMICS)**

The Commission does not meet the minimum ARMICS requirements documented in Accounts’ ARMICS standards for agency and transaction-level risk assessments. We noted the Commission’s current ARMICS documentation lacked the following required items:

- identification of fraud risks;
- agency strengths, weaknesses, opportunities, and threats analysis;

- documentation of the key elements and assessments of various internal control components (i.e., Control Environment, Information and Communication, Monitoring, Existing Control Activities);
- transaction-level assessment – including how controls were tested and results of tests; and,
- code of ethics that addresses acceptable business practices.

Given that management certifies to Accounts that the Commission adequately completes the ARMICS process, management should ensure it is meeting the minimum requirements of the ARMICS standards, including retaining all documentation to support the ARMICS process.

The agency head and fiscal officer are required to complete the applicable annual ARMICS training, offered through the Commonwealth’s Learning Center. The State Comptroller issued a memo entitled “Mandatory Agency Head Training” that includes this requirement. The agency head and fiscal officer did not complete this training as required, which is a factor leading to deficiencies noted in the agency’s internal control risk assessment as discussed above. The Commission should ensure that the applicable individuals complete the training as required.

## **Complete Financial System Reconciliations Correctly**

The Commission is not following the CAPP Manual for reconciliations between agency records and the Commonwealth's accounting and financial reporting system. CAPP Topic 20905 requires that the agency maintains a transaction log of all transactions entered into the system. This log is to be used to verify that transactions are complete and correct. Although the Commission maintains an external voucher log for all expenditures, there is no transaction log related to other items such as revenue. A log outside of the system should be maintained even if there is little activity. The Commission should expand the existing transaction log to include all transactions entered into the Commonwealth's accounting and financial reporting system and ensure that the reconciliation process fully complies with the CAPP manual.

## **Comply with State Requirements for Payroll and Human Resource Processes**

### *Employee Work Profiles*

The Commission currently does not have finalized and up-to-date employee work profiles for all employees or an up to date organizational chart. The Commission has identified a goal to better define employee roles and responsibilities. Employee work profiles are commonly used to clearly define roles and responsibilities, including backup roles, as well as track performance and development of employees. The lack of clearly defined roles and responsibilities in an agency, especially a small agency such as the Commission, can lead to inefficiency within the agency due to overlap of activities. The evaluation of employee performance and development helps to build employee morale and ensure appropriate competence, skills, and training of management and employees. The Department of Human Resource Management (Human Resource Management) offers an Employee Work Profile template to state agencies that outlines these important areas. Management should continue to develop employee roles and responsibilities using comprehensive employee work profiles and consider the resources provided by Human Resource Management. Management should also create an organizational chart that clearly identifies the reporting structure of the agency.

### *Commonwealth's Human Resource System*

- *Removal of terminated employees:* We noted during our review that the previous agency head, who separated as of June 30, 2018, was still a current employee in the Commonwealth's human resource system. Although payroll functions are maintained by the Bureau, it is ultimately the agency's responsibility to ensure separated employees are removed properly and in a timely manner from all applicable systems. Management should ensure that access for this individual is removed immediately and ensure that sufficient controls are in place for future terminations.
- *Review of Cancelled Records Reports:* Per the Bureau's Scope of Services, it is the agency's responsibility to regularly review the system's daily "Cancelled Records Report" and address and/or update errors as necessary in the human resource system or the Commonwealth's retirement benefits system. The Commission is not reviewing this report and; therefore, is

susceptible to not identifying items rejected by the interface of the human resource/retirement benefits systems. Management should ensure that Cancelled Records Reports are reviewed regularly.

### *Executive Leave*

The Commission is not complying with Human Resource Management's Executive Leave Policy. The policy requires "at-will" employees to obtain advance approval to use leave, maintain accurate leave records, and certify, in writing, that they did not exceed their established leave limit during the specified time period. The Commission is not tracking or certifying leave as required. Management should ensure that "at-will" employees comply with the Executive Leave Policy.

## **Comply with the Commonwealth's Information Security Standard**

### *Information Security Program*

As an executive branch agency of the Commonwealth, the Commission is required to abide by the applicable sections of the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Management is not knowledgeable of the requirements set forth by the Security Standard and; therefore, is not maintaining an Information Technology (IT) security program in accordance with industry best practices. Although the Commission has an IT Security Policy, the Commission does not implement the policy as written and references an older version of the Security Standard that has been superseded by the current version.

The Security Standard, Section 1.1, requires agencies to develop an information security program that includes documented policies and procedures that govern the minimum control requirements for its applications and systems, as well as procedures that mandate the effective implementation of information security controls. These documented information security policies and procedures should include, but not be limited to, general system security, access reviews, and employee access terminations and approvals.

Without current and approved information security policies that align with the requirements in the Security Standard, the Commission may not establish processes to support control requirements that align with current technologies. Additionally, the Commission cannot effectively communicate security requirements to protect and mitigate risks to data. Finally, the Commission may inconsistently address security needs across the IT environment, potentially resulting in unauthorized access to data or the inability to recover from system outages promptly, among other risks. Management should develop, formally approve, and implement into their information security program a set of policies and procedures that align with the requirements in the Security Standard and establish the minimum requirements to implement effective security controls in the Commission's IT environment.

### *Grants Management System*

Management has not evaluated the sensitivity of the Commission's grants management system. The agency uses this system to assist in the processing of grant applications. In the event of system downtime, the Commission could default operations to manual work arounds. However, this could significantly impact the efficiency of the Commission's operations. The Security Standard, Section 2.5, requires that the Commission classify all IT systems and data for sensitivity. The Commission should evaluate the sensitivity of the grants management system in order to implement and follow appropriate system security requirements per the Security Standard.

### *Systems Access*

Management is not completing systems access reviews or monitoring use of information systems accounts to ensure employee access to both statewide and internal agency systems are reasonable and within the principle of least privilege in compliance with Sections AC-2 and AC-6 of the Security Standard. As noted above, management should develop, formally approve, and implement into their information security program a set of policies and procedures that align with the requirements in the Security Standard. Management should also ensure that access is reviewed at least annually for all systems.

### *Security Awareness*

The Commission does not currently have an information security awareness and training program in place. The Security Standard, Section AT-2, requires that the Commission provide basic security awareness training to all information system users as part of initial training for new users, and at least on an annual basis thereafter. Without providing security awareness training to its end users and verifying that IT system users complete the training; the Commission increases the risk that users will not be able to identify security incidents and react appropriately. The Commission should implement an information security awareness and training program, and verify that all IT systems' end users complete basic security awareness training on an annual basis or more often as necessary.



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

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September 30, 2019

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission

We have performed a review of the Virginia Commission for the Arts and are pleased to submit our report entitled **Review of the Virginia Commission for the Arts**.

We discussed this report with management on September 30, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

JDE/KJS/vks





# COMMONWEALTH of VIRGINIA

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October 22, 2019

Martha Mavredes  
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Thank you for the recent report pertaining to our APA audit of internal controls and transfer payments. As a still relatively new Agency head appointed in August 2018, I found the experience extremely beneficial in identifying issues of which I was largely unaware, (particularly as the review of transfer payments was for those that took place prior to June 30, 2018), clarifying understandings of expectations (of processes, procedures, etc.), and identifying opportunities to strengthen, improve or re-establish systems and processes.

Having reviewed the report and discussed with my Deputy Director, I found some assessments concerning as either they were contradictory to what had been previously advised; or imply that there are no processes in place, when we believe there are. Perhaps it is enacted more verbally and yes—we have identified the need to update several existing documents; however we have fully communicated internally—a common and consistent process for grant payments, execution of letters of agreement/contracts, and ensured segregation of duties to the best of our abilities.

As a small agency of 5 FT and 2 PT, we are consumed with day-to-day operations, including the administration of over 750 grants annually. As a small staff, there is much verbal and email communication to execute processes, particularly related to grants administration. In addition, there are several supporting documents such as an Internal Procedures Manual and Work Profiles in existence that we recognized (through this process) were due for revision. More details pertaining to these and other areas identified in the report follow:

--**Employee Work Profiles** --were largely updated in May/June 2018 just prior to the departure of the previous Executive Director. I maintain hard copies (as my predecessor did not create many electronic documents) of profiles that were revised for the Executive Financial Assistant, Arts in Education Coordinator, and Program Coordinator, and have an older copy for the Deputy Director position. The Administrative Assistant Profile/Job Description was updated with the search and hiring that commenced in April, 2019. The webmaster (PT, 7hr/week) position has remained static as I determined to take my first year to assess the overall construct before making any changes or revisions to duties, titles, responsibilities, etc. Additionally, as the Deputy position transitioned from a classified to an appointed position in recent years, with significant disruption in the first two appointments, my understanding was that there was not a

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profile—and I was not certain of whether Profiles are used for Appointments. That said, all profiles are being reviewed and updated this October (now) as part of our annual review protocol. In addition, the organization chart was updated in September 2018 (shortly after my arrival) as we were preparing for New Commissioner Orientation, and reviewed again last month (with no need for revision), as part of this year's New Commissioner Orientation.

--**Cross-training** – relative to cross-training of key personnel, the Financial Assistant had largely trained in most all financial/accounting measures during the transition from 1) the Deputy transitioning from a Classified to an Appointed position; and 2) several successive appointments, to the current Deputy.

--**Executive Leave** – in Agency Head training, I was advised to keep an Excel spreadsheet of leave time, and submit to my Secretary (and Deputy) by the second week of January, each year, when our leave time expires, and starts anew. My Deputy stated he was told similarly. The process outlined was simply not what was communicated to us as we arrived. That said, we are amending our processes, to include a Certification Letter, annually.

--**Financial Management of Federal Grants**—we were largely unaware of state code that dictates we should allocate more equitably—throughout the year—the allocation of state versus federal funding in our grantmaking. We have revised accordingly. We will also make sure that we are familiar with the guidelines and requirements of our Partnership Agreement with the National Endowment for the Arts, as well as expense allocations in accordance with our FFR (Federal Financial Report).

--**Other Documentation**—as a result of this exercise, it was determined that, with all the recent transition—both to an online grants system, and transition in leadership—the agency was due to update its Internal Controls document (which was shared with APA auditors). My Deputy has since completed a significant revision, and I am currently reviewing.

--**Vendor payments** – It is my understanding that our Financial Assistant was misinformed by someone about the definition of the 30 days on payments to vendors (when the “30 days” begins). I do not aim to share this as an overt defense, but rather to share that is a result of misinformation given.

In closing, I will share that our Deputy has recently announced his retirement, and with the Appointment of a new Deputy, we have even greater opportunities to strengthen our capacities and processes (including ARMICS requirements) and address all the concerns outlined. This includes exploring options for additional functional support from VITA, DHRM and other agencies.

Respectfully yours,

Janet Starke  
Executive Director

## **VIRGINIA COMMISSION FOR THE ARTS**

As of July 30, 2019

Janet Starke  
Executive Director

Johnson Childress  
Deputy Director